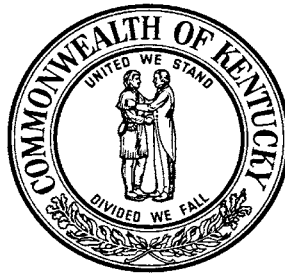


**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

August 16, 2002



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Paul Thompson, Floyd County Judge/Executive

Honorable John Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Floyd County Sheriff's Settlement - 2001 Taxes and 2001 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Floyd County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
FLOYD COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES AND
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES**

August 16, 2002

Berger & Ross, PLLC
Certified Public Accountants and Fraud Examiners
800 Envoy Circle
Louisville, KY 40299-1837
(502) 499-9088
Fax: (502) 499-9132

400 Democrat Drive
Suite 2107
Frankfort, KY 40601
(502) 695-7353

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLOYD COUNTY SHERIFF'S SETTLEMENT - 2001 TAXES AND 2001 UNMINED COAL TAXES

August 16, 2002

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement 2001 Unmined Coal Taxes for Floyd County Sheriff as of August 16, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$9,530,133 for the districts for 2001 taxes. Sheriff distributed taxes of \$9,507,999 to the districts for 2001 Taxes. Taxes of \$30 are due to the districts from the Sheriff and refunds of \$109 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Deposits:

The Sheriff's deposits were uninsured and insufficiently collateralized by bank securities or bonds.

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(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member:
American Institute of Certified Public Accountants (AICPA)
National Association of Certified Fraud Examiners (NAFEC)
Association of Certified Fraud Examiners (ACFE)
Kentucky Association of Certified Public Accountants (KACPA)
National Association of Tax Professionals (NATP)
Government Auditing Standards Board (GASB)

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Paul Thompson, Floyd County Judge/Executive
Honorable John Blackburn, Floyd County Sheriff
Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the Floyd County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 16, 2002. This tax settlement is the responsibility of the Floyd County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Floyd County Sheriff's taxes charged, credited, and paid as of August 16, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Paul Thompson, Floyd County Judge/Executive
Honorable John Blackburn, Floyd County Sheriff
Members of the Floyd County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 9, 2002

FLOYD COUNTY
JOHN BLACKBURN, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 16, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 973,764	\$ 1,136,237	\$ 3,882,223	\$ 871,267
Tangible	137,823	90,134	549,539	248,167
Intangible	-	-	-	115,749
Fire Acreage	3,725	-	-	-
Gas and Oil	149,770	91,045	597,109	134,005
Total Per Sheriff's Official Receipt	\$ 1,265,082	\$ 1,317,416	\$ 5,028,871	\$ 1,369,188
<u>Other Taxes and Charges</u>				
Correcting Erroneous Assessments	\$ 665	\$ 403	\$ 2,652	\$ 621
Penalties & Interest	13,709	15,229	54,520	14,426
Franchise Corporation	195,079	178,045	776,911	-
Gross Chargeable to Sheriff	\$ 1,474,535	\$ 1,511,093	\$ 5,862,954	\$ 1,384,235
<u>Credits</u>				
Exonerations	\$ 15,097	\$ 17,175	\$ 60,094	\$ 16,618
Delinquents	86,418	100,146	343,364	93,788
Unpaid Franchise	440	549	1,741	-
Discounts	16,865	17,022	67,058	18,351
Total Credits	\$ 118,820	\$ 134,892	\$ 472,257	\$ 128,757
Net Tax Yield	\$ 1,355,715	\$ 1,376,201	\$ 5,390,697	\$ 1,255,478
Less: Commissions*	57,905	40,902	107,814	53,645
Taxes Due Districts	\$ 1,297,810	\$ 1,335,299	\$ 5,282,883	\$ 1,201,833
Taxes Paid	1,296,604	1,333,811	5,385,896	1,200,694
Less: Refunds (Current & Prior Year)	1,215	1,520	4,839	1,139
Add: Commission Refunds From School	-	-	107,814	-
		**		
Refund Due Sheriff				
as of Completion of Fieldwork	\$ (9)	\$ (32)	\$ (38)	\$ -

* and ** See Page 4

The accompanying notes are an integral part of these financial statements.

FLOYD COUNTY
 JOHN BLACKBURN, SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 August 16, 2001
 (Continued)

*Commissions:	10% on	\$	10,000
	4.25% on		3,436,270
	2% on		5,390,697
	1% on		541,124
**Special Taxing Districts:			
Library District		\$	(1)
Health District			(2)
Extension Service District			(4)
Allen Fire District			(13)
Left Beaver Fire District			(4)
Martin Fire District			30
Maytown Fire District			(29)
North Floyd Fire District			(1)
Wayland Fire District			(8)
			<hr/>
Due Districts or (Refunds Due Sheriff)		\$	<u>(32)</u>

The accompanying notes are an integral part of these financial statements.

FLOYD COUNTY
JOHN BLACKBURN, SHERIFF
SHERIFF'S SETTLEMENT - 2001 UNMINED COAL TAXES

August 16, 2002

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
<u>Charges</u>				
Sheriff's Official Receipt for				
Unmined Coal	\$ 59,057	\$ 67,048	\$ 235,452	\$ 52,841
Additional Bills	100	61	407	97
Omitted Bills	9,406	11,008	37,502	8,416
Penalties and Interest	626	727	2,497	561
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 69,189	\$ 78,844	\$ 275,858	\$ 61,915
 <u>Credits</u>				
Exonerations	\$ 7,123	\$ 8,008	\$ 28,398	\$ 6,373
Delinquents	1,103	1,154	4,399	987
Discounts	624	728	2,490	559
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Total Credits	\$ 8,850	\$ 9,890	\$ 35,287	\$ 7,919
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 60,339	\$ 68,954	\$ 240,571	\$ 53,996
Less: Commissions*	2,564	1,882	4,811	2,295
	<hr/>	<hr/>	<hr/>	<hr/>
				-
Taxes Due Districts	\$ 57,775	\$ 67,072	\$ 235,760	\$ 51,701
Taxes Paid	55,825	65,042	232,796	49,956
Less: Refunds	1,950	2,030	7,775	1,745
Add: Commission Refunds From School	-	-	4,811	-
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due Districts (Refund Due Sheriff)	\$ -	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
 *Commissions:	4.25% on	\$ 151,017		
	2% on	240,571		
	1% on	32,272		

The accompanying notes are an integral part of these financial statements.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS

August 16, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$292,417 of public funds uninsured and unsecured.

FLOYD COUNTY
 NOTES TO FINANCIAL STATEMENTS
 August 16, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 5,000,000
Federal Deposit Insurance Corporation Coverage	200,000
Uncollateralized and uninsured	<u>292,417</u>
Total	<u>\$ 5,492,417</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2001 through July 17, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 17, 2001 through July 17, 2002.

Note 4. Interest Income

The Floyd County Sheriff earned \$5,725 as interest income on 2001 taxes. As of October 9, 2002, the Sheriff owes \$125 in interest to the Common School District and \$117 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Floyd County Sheriff collected \$82,961 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Floyd County Sheriff collected \$2,640 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising cost to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

FLOYD COUNTY
JOHN BLACKBURN, SHERIFF
COMMENT AND RECOMMENDATION

August 16, 2002

STATE LAW AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 10, 2001, \$292,417 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

We had an agreement that we were supposed to be covered regardless of the amount deposited.

Auditor's Notes: It was explained to the Sheriff that because the unsecured deposits total over \$100,000 that it must be disclosed in the audit report. It was also advised that he speak with the bank about the balance in December being so high and that there is a written agreement that states that the bank must cover the balance.

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REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

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Association of Certified Financial Planners (AICPA)
Association of Government Auditors (AGA)
National Association of Public Accountants (NAPAs)
National Association of Tax Professionals (NATP)
International Association of Certified Financial Planners (IACFP)

To the People of Kentucky

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the Floyd County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 16, 2002, and have issued our report thereon dated October 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Floyd County Sheriff's Settlement - 2001 Taxes and the Sheriff's Settlement - 2001 Unmined Coal Taxes as of August 16, 2002 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Floyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 9, 2002

